

CONFIDENTIAL

02057

16 November 1967

MEMORANDUM FOR: Chief, Support Staff, NPIC

SUBJECT : Overrun

X1

1. In a cost reimbursement type contract, which this is, a Contractor recovers all his costs. The original proposal cost is the Contractor's best estimate of what will be required to complete the work, but it is only an estimate. If the actual cost is greater than the estimated cost, the Government by the terms of the contract is required to pay this increased cost in the form of an "overrun." The only alternative is to terminate the contract and accept the equipment in an unfinished state.

2. As to the validity of the overrun costs, these will be validated by the audit which precedes final settlement of the contract. The Technical Development Staff reviewed these costs to determine if they were reasonable from a technical standpoint. This analysis resulted in a decision that these increased costs could not be challenged on a technical basis.

3. Since the Government under such circumstances must pay the increased costs, the Technical Development Staff was left with the following alternatives:

a. Terminate the contract and accept the equipment in an unfinished and unusable state.

b. Recommend payment of only required to complete the equipment in a form that does not fully meet the specifications--particularly in the area of the Zero-reset feature.

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c. Recommend payment of the requested required to complete the equipment to fully meet all operational requirements.

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4. After full consideration of all factors involved, it was decided that the best interests of the Government would be served by adopting Alternative C.

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Declass Review by NGA.

Contracting Officer, NPIC

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GROUP 1
Excluded from automatic
downgrading and
declassification

X1

SUBJECT: **Overrun**

CONCURRENCE:

Ch/Exploitation Systems Branch/DS
TDS

Date

Distribution:

Orig - Addressee

1 -
1 -
2 - LB

X1